

# Information about Business Integration with INPEX

This material provides information about the business integration between Teikoku Oil Co., Ltd. and INPEX Corporation. Teikoku Oil management would like to ask all the shareholders to vote for the business integration at an extraordinary shareholders' meeting to be held on January 31, 2006. Please also refer to the respective proxy statement.



For Further Resource Acquisition & Enhanced Shareholders' Value



# Message from Management

We would like to thank all our shareholders for their understanding and support during the past years.

Teikoku Oil Co., Ltd. (hereafter “Teikoku”) and INPEX Corporation (hereafter “INPEX”) announced the business integration on November 5, 2005. The business integration is a highly strategic transaction to enhance Teikoku’s presence as an oil and natural gas upstream company under increasingly fierce global competition. Teikoku’s management firmly believes that the business integration will contribute to continuous increase in shareholders value.

Purpose and benefits of the business integration are demonstrated in this material. Teikoku’s management would like to appreciate all the shareholders’ understanding and voting for the transaction at an extraordinary shareholders’ meeting to be held on January 31, 2006.



January, 2006

Rep. Director & President

A handwritten signature in black ink, reading "M. Sugioka" with a stylized flourish at the end.

Masatoshi Sugioka

# Purpose of Business Integration with INPEX

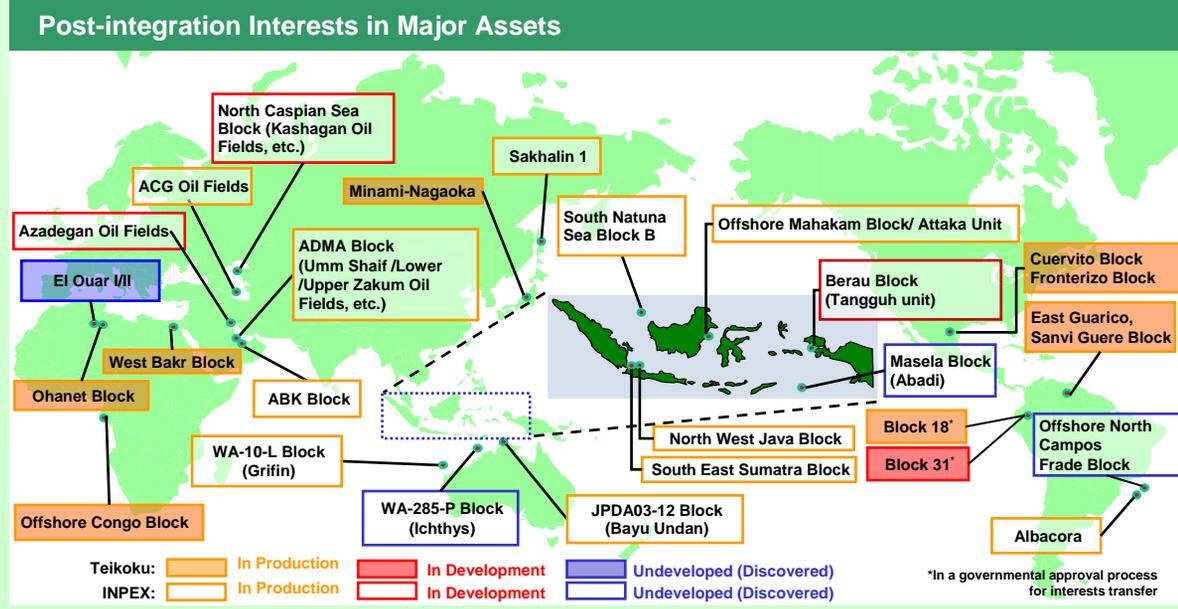
The demand of oil and natural gas is growing rapidly due to economic growth led by the United States and China. Countries such as China and India are striving to secure upstream assets in the Middle East, Africa and Latin America. Major oil development companies are strengthening competitiveness through mergers and acquisitions, and competition for acquiring resources has become more intense than ever.

Under the competitive environment, Teikoku and INPEX believes that the business integration of the both companies will increase shareholder value through the following three benefits generated by the business integration. The integrated new company will establish a firm and competitive position in order to compete against global oil companies.

## 1 Well-balanced Asset Portfolio

First benefit of the business integration is the establishment of well-balanced asset portfolio through complementary domestic and overseas assets between Teikoku and INPEX.

Teikoku has strong presence in Japan with overseas operation mainly in Central/South America and Africa. INPEX operates primarily in foreign regions including Asia/Oceania, Middle East and Caspian Sea, owning high profile projects with large scale and expected high growth. Combining Teikoku's stable domestic business with INPEX's high growth overseas business will enable the integrated new company to secure both growth and stability.



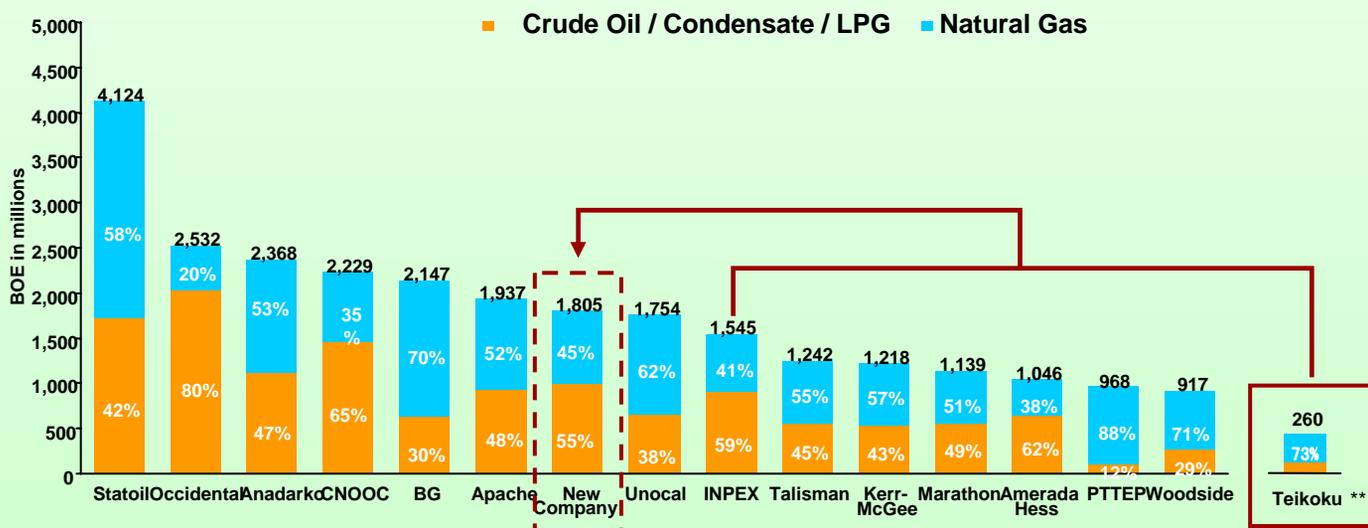
## 2 Strengthened Presence as a Global Independent Company

Second benefit of the business integration is the strengthened presence as a global independent company. The chart below demonstrates the combined total oil and gas proved reserves of approximately 1.8 billion BOE. The combined net production\* will be 372 thousand BOE per day. Based on FY2004 financials, the combined asset will be approximately 1 trillion yen and the combined recurring profit will be approximately 280 billion yen. In addition, the combined market cap, as of December 15, 2005, is approximately 2.45 trillion yen. The business integration will generate the competitive scale company compared to global oil and gas companies.

Teikoku's management believes that the integrated new company will be able to increase shareholder value through increasing opportunities to access new projects, the government resource diplomacy to be leveraged, and strengthened presence as a global company.

\* Net production is the total production volume relative to owned interests minus production volume attributable to domestic government.

### Increase in Oil and Gas Proved Reserve



Source: Most recent publicly available financials (as of FY 12/2004, except for PTTEP (FY 12/2003) and INPEX (FY 3/2005) respectively; figures for the new company is a simple sum, assuming that integration of Teikoku and INPEX took place in FY2004)

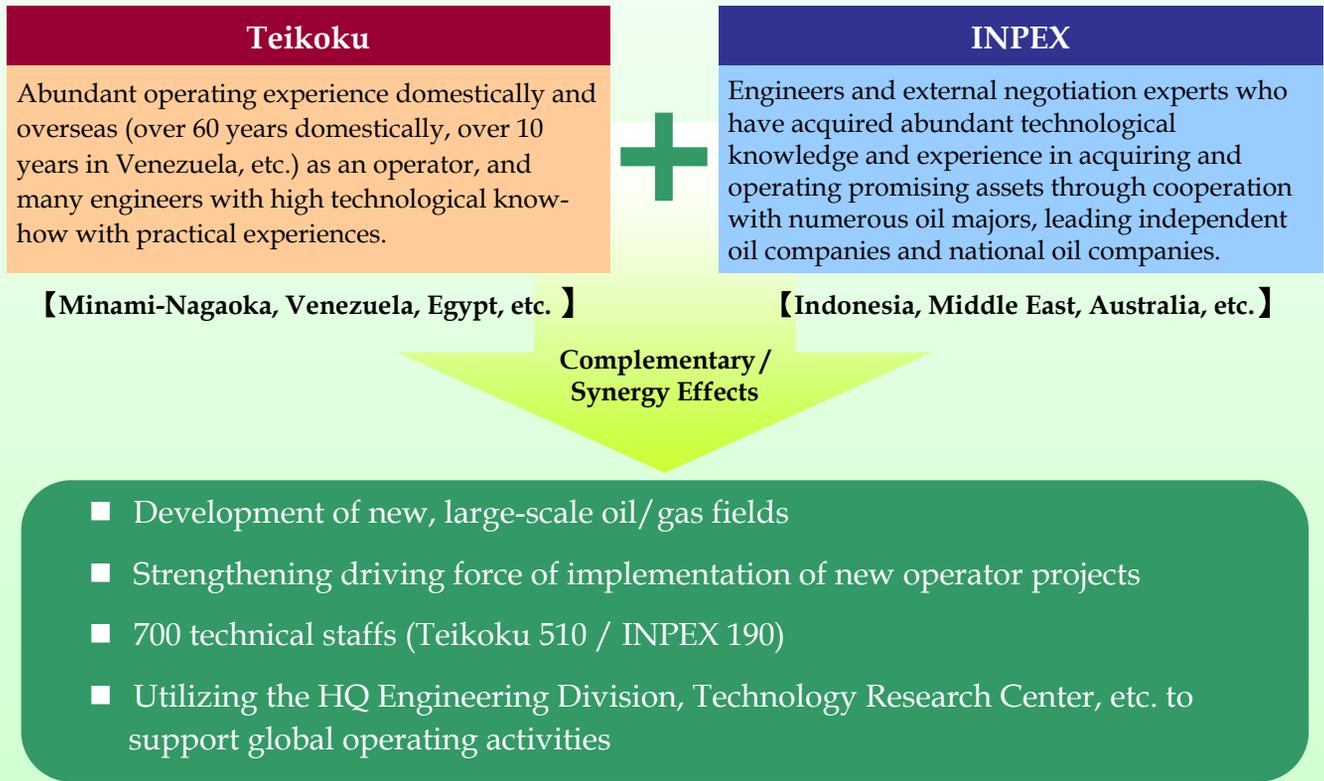
Note : \* Proved reserves are figures calculated in accordance with SEC regulations. Includes owned proportion of equity-method affiliates. Teikoku figures are based on company evaluations prepared in accordance with the abovementioned standards, as of 12/31/2004. INPEX figures based on DeGolyer & MacNaughton's deposit evaluation report.

\*\* Includes reserves in a governmental approval process for interests transfer.

### 3 Enhanced Capability as an Operator

Third benefit of the business integration is enhanced capability as an operator. Teikoku's abundant operating experience domestically and overseas will be combined with INPEX's abundant technical knowledge developed through global operation with numerous oil majors and leading independent oil companies. The integrated new company will greatly expand technical capabilities as an oil and gas upstream company.

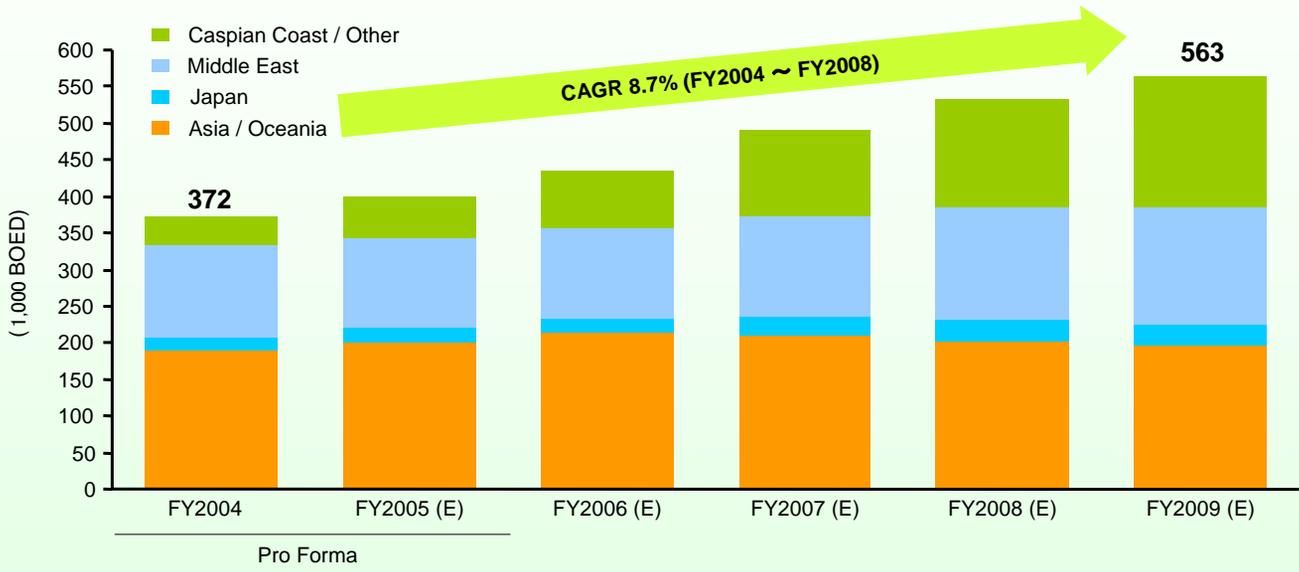
The integrated new company will have 700 technical staffs. It will also be able to effectively utilize operator capabilities and the technical research center, strongly driving the implementation of large operator projects such as those in Iran (Azadegan), Australia (Ichthys) and Indonesia (Abadi).



# Pro Forma Projection of Production Volume

The production volume of the integrated new company is expected to grow rapidly. Compared to the simple sum of FY2004 production volume of 372 thousand BOE, FY2009 production volume is expected to increase to 563 thousand BOE, or 8.7% CAGR (compounded annual growth rate) over five years.

## Pro Forma Projection of Production Volume Post-integration



# Process of Business Integration

The business integration will be implemented in two phases. The first phase is the establishment of a joint holding company in April 2006, subject to an approval at the extraordinary shareholders' meeting to be held on January 31, 2006. This will be followed by reorganization of overseas operations of both companies and Teikoku's domestic operation in order to effectively implement growth strategies.

The second phase is the merger among the holding company, Teikoku and INPEX to become an operating holding company, subject to shareholders' approval at an annual shareholders' meeting expectedly in June 2008.

Schedule (Expected)	
January 31, 2006	Extraordinary Shareholders' Meeting
March 28, 2006	Delisting of Teikoku and INPEX
April 3, 2006	Establishment and listing of a holding company
June, 2008	Transition to an operating holding company



# Pro Forma Financials

Based on FY2004 financials, the combined revenue is approximately 563 billion yen with operating profit of 282 billion yen, ordinary profit of 275 billion yen and net income of 86 billion yen. The combined total assets is 1.02 trillion yen with the simple sum market cap\* of 2.45 trillion yen.

(JPY in 100 million)

FY2004	Teikoku	INPEX	Simple Sum
Revenue	840	4,786	5,626
Operating Profit	135	2,687	2,822
Ordinary Profit	165	2,586	2,751
Net Income	93	765	858
Total Assets	2,405	7,792	10,197
Market Cap*	4,717	19,774	24,491
Number of Employees	1,331	387	1,718

\* As of December 15, 2005

## Historical Financials of Teikoku and INPEX

(JPY in 100 million)

Teikoku	December 2002	December 2003	December 2004	December 2005 (First Half)
Revenue	736	785	840	498
Operating Profit	73	87	135	122
Ordinary Profit	107	112	165	141
Net Income	52	68	93	89
Total Assets	2,040	2,263	2,405	2,601

(JPY in 100 million)

INPEX	March 2003	March 2004	March 2005	March 2006 (First Half)
Revenue	2,015	2,188	4,786	3,106
Operating Profit	973	939	2,687	1,866
Ordinary Profit	701	948	2,586	1,806
Net Income	279	348	765	517
Total Assets	3,387	5,253	7,792	8,862

# Overview of the Integrated New Company and INPEX

## Overview of the Integrated New Company

<b>Company Name</b>	INPEX Holdings Inc. Japanese Name: Kokusai Sekiyu Kaihatsu Teiseki Holdings K.K.								
<b>Location</b>	4-1-18 Ebisu Shibuyaku, Tokyo								
<b>Integration Method</b>	Establish a holding company through stock transfer regime (To become an operating holding company through merger of a holding company, Teikoku and INPEX subject to an approval at an annual shareholders' meeting of the second fiscal year)								
<b>stock transfer Ratio</b>	<ul style="list-style-type: none"> <li>• 0.00144 holding company common shares for 1 Teikoku common share</li> <li>• 1 holding company common share for 1 INPEX common share</li> <li>• 1 holding company special class share for INPEX special class share</li> </ul>								
<b>Major Board Members</b>	<table> <tr> <td>Rep. Director &amp; Chairman</td> <td>Kunihiro Matsuo (Chairman of INPEX)</td> </tr> <tr> <td>Rep. Director</td> <td>Akira Isono (Chairman of Teikoku)</td> </tr> <tr> <td>Rep. Director</td> <td>Masatoshi Sugioka (President of Teikoku)</td> </tr> <tr> <td>Rep. Director &amp; President</td> <td>Naoki Kuroda (President of INPEX)</td> </tr> </table>	Rep. Director & Chairman	Kunihiro Matsuo (Chairman of INPEX)	Rep. Director	Akira Isono (Chairman of Teikoku)	Rep. Director	Masatoshi Sugioka (President of Teikoku)	Rep. Director & President	Naoki Kuroda (President of INPEX)
Rep. Director & Chairman	Kunihiro Matsuo (Chairman of INPEX)								
Rep. Director	Akira Isono (Chairman of Teikoku)								
Rep. Director	Masatoshi Sugioka (President of Teikoku)								
Rep. Director & President	Naoki Kuroda (President of INPEX)								
<b>Listing Exchange</b>	Tokyo Stock Exchange (1st Section)								

## Overview of INPEX

<b>Location</b>	4-1-18 Ebisu Shibuya-ku, Tokyo										
<b>Established</b>	February 1966										
<b>Representative</b>	Naoki Kuroda, Rep. Director & President										
<b>Capital</b>	29,460 million yen (As of September 30, 2005)										
<b>Major Shareholders (As of September 30, 2005)</b>	<table> <tr> <td>Minister of Economy and Industry</td> <td>36.06%</td> </tr> <tr> <td>Japan Petroleum Exploration Co., Ltd.</td> <td>13.37%</td> </tr> <tr> <td>Mitsubishi Corporation</td> <td>9.88%</td> </tr> <tr> <td>Mitsui Oil Exploration Co., Ltd.</td> <td>9.21%</td> </tr> <tr> <td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td> <td>3.03%</td> </tr> </table>	Minister of Economy and Industry	36.06%	Japan Petroleum Exploration Co., Ltd.	13.37%	Mitsubishi Corporation	9.88%	Mitsui Oil Exploration Co., Ltd.	9.21%	The Master Trust Bank of Japan, Ltd. (Trust Account)	3.03%
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# Frequently Asked Questions

## Q. What is the stock transfer?

- The stock transfer is the regime in which a company (or companies) establishes a 100% parent company.
- Teikoku and INPEX will establish INPEX Holdings. Shareholders of Teikoku and INPEX will exchange their shares in Teikoku and INPEX with shares in INPEX Holdings.
- As a result, shareholders of Teikoku and INPEX will become shareholders of INPEX Holdings on the stock transfer date (i.e. April 3, 2006).

## Q. What is the stock transfer ratio?

- Teikoku shareholders will receive 0.00144 common shares in INPEX Holdings for 1 common share in Teikoku (or 1.44 common shares in INPEX Holdings for 1,000 common shares in Teikoku, a least trading unit).
- The stock transfer ratio provides Teikoku shareholders with approximately 19% premium based on three-month average share prices of both companies.
- INPEX shareholders will receive 1 common share in INPEX Holdings for 1 common share in INPEX.
- A special class shareholder will receive a special class share in INPEX Holdings for a special class share in INPEX.

## Q. How was the stock transfer ratio determined?

- The stock transfer ratio was determined through discussion and negotiation by both companies taking into consideration the investigation of various professionals and the advice of financial advisors.

- Teikoku retained Goldman Sachs (Japan) Ltd. And INPEX retained J.P. Morgan Securities Asia Pte. as their financial advisors, respectively. The financial advisors analyzed the share price movements of the both companies, discounted cash flow (DCF) / net asset value (NAV) analysis and contribution analysis, etc. in considering the common stock transfer ratio.
- The stock transfer ratio was determined through discussion and negotiation by both companies considering the analysis and advice of the respective financial advisors and other various factors.
- Teikoku and INPEX obtained fairness opinions for the stock transfer ratio from respective financial advisors.

## Q. Teikoku's 1,000 shares are to be exchanged with 1.44 shares of a holding company. Does this mean the value of my stake in Teikoku will decrease?

- The stock transfer ratio is demonstrated based on the number of shares of either company involved in the stock transfer. Receiving 1.44 shares in INPEX Holdings for 1,000 shares or one trading unit in Teikoku does not mean the value of the share in Teikoku decreases.
- The stock transfer ratio provides Teikoku shareholders with approximately 19% premium based on the average share price of Teikoku for the three-month period until the day before announcement, November 4<sup>th</sup>.

## Q. How can I obtain the new shares?

- For Teikoku shares deposited in Japan Securities Depository Center Inc., a shareholder does not need to take any action. A shareholder who physically has Teikoku shares needs to submit the shares to the stock transfer agent during the period from February 28, 2006 to March 31, 2006.

# Frequently Asked Questions (Cont'd)

- The detailed procedure will be explained in the mail to be sent on February 27, 2006. The share certificates in INPEX Holdings will be delivered expectedly on May 26, 2006.

## Q. How will my fractional shares be treated?

- INPEX Holdings will have the fractional share register stipulated in the Commercial Code (e.g. Article 220) for 0.01 fractional shares or any integral multiple thereof. For less than 0.01 fractional shares, cash will be paid by INPEX Holdings expectedly in late May, 2006.
- For example, if a shareholder owns 1,331 shares in Teikoku, 1.91 shares (1,331 shares multiplied by 0.00144 equals 1.91664 shares) in INPEX Holdings will be distributed. 0.91 shares will be recorded in the fractional share register. For 0.00664 fractional shares (i.e. less than 0.01 fractional shares), cash will be distributed to the shareholder.
- A shareholder may request purchase of the fractional shares (i.e. 0.91 shares) to INPEX Holdings. On the other hand, a shareholder may increase 0.91 shares to one share by adding 0.09 shares in a certain procedure which will be notified.

## Q. Can I receive dividend for the period prior to the stock transfer?

- Annual dividend of 4.5 yen per share will be distributed to Teikoku shareholders in March 2005 for the fiscal year ending December 2005, subject to an approval at an annual shareholders' meeting.
- For the period from January to March 2006, dividend of 3 yen per share will be distributed to Teikoku shareholders.

## Q. What is the special class share issued by a holding company to METI?

- The special class share will grant METI (Minister of Economy, Trade and Industry) a veto right over major corporate decisions such as appointment and removal of directors, disposition of all or part of the material assets, etc. , which is an equivalent right to the special class shares of INPEX.
- METI may execute the veto right only to the extent that it determines a proposed action or transaction will likely adversely affect the goal of efficiently securing a stable energy supply for Japan as a national flag company and other highly limited circumstances against Japan's national energy policy objectives.
- In other words, the veto right will defend the new company from a possible corporate raid by a foreign company against the national interests and/or from a speculative acquisition. On the other hand, the veto right can not be executed by the new company's management.
- The special class share issued by the new company will have the equivalent, highly transparent veto right, and will not inappropriately limit efficient and flexible implementation of the new company's management.



Press Conference, November 5, 2005

**INPEX**



**TEIKOKU**

### Rule 802 Legend

“This business combination is made for the securities of a foreign company. The offer is subject to disclosure requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, have been prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since the issuer of the securities is located in a foreign country, and some or all of its officers and directors may be residents of a foreign country. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court’s judgment.

You should be aware that the issuer may purchase securities otherwise than under this business combination, such as in open market or privately negotiated purchases.”

## Contact Information

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TEL 81-3-3466-1237 (Legal Section)

FAX 81-3-3468-3510

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